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FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

BUDGET ESTIMATES FOR THE BIENNIUM 1994-1995

Revised budget estimates for the 1992-1993 biennium and budget estimates for the 1994-1995 biennium

Report of the Advisory Committee on Administrative and Budgetary Questions

1. In accordance with regulation 9.5 of the Financial Regulations of the United Nations Development Programme (UNDP), the Advisory Committee on Administrative and Budgetary Questions (ACABQ) has considered the revised budget estimates of UNDP for 1992-1993 and its budget estimates for 1994-1995, as contained in document DP/1993/45. In accordance with Financial Regulation 5.1, the Advisory Committee has also considered a report on trust funds established by the Administrator in 1992, as contained in document DP/1993/44/Add.3. Pursuant to General Assembly resolution 47/211 of 23 December 1992, the Committee also had before it the Administrator's report on audit reports (DP/1993/47) which includes, inter alia, a timetable of action on recommendations of the Board of Auditors, as requested in paragraph 10 of resolution 47/211.

General observations

2. The Administrator's budget estimates for 1994-1995 for UNDP as a whole amount to $628,375,100 gross ($591,675,100 net). That amount compares with his proposed revised estimates for 1992-1993 as follows:

(Thousands of dollars)

Source of funds	1992-1993 revised estimates (DP/1993/45)	Increase/decrease Volume	Increase/decrease Cost	Increase/decrease Total	1994-1995 estimates (DP/1993/45)
A. UNDP core activities	479 576.0	(41 814.2)	48 339.5	6 525.3	486 101.3
B. Programme support and development activities	101 256.2	2 124.9	8 130.3	10 255.2	111 511.4
C. Trust funds	28 732.5	(1 137.5)	3 167.4	2 029.9	30 762.4
TOTAL (Gross)	609 564.7	(40 826.8)	59 637.2	18 810.4	628 375.1
Estimated income	(32 000.0)	(4 700.0)	0.0	(4 700.0)	(36 700.0)
TOTAL (Net)	577 564.7	(45 526.8)	59 637.2	14 110.4	591 675.1

3. The Administrator's estimates reflect a volume reduction of $41.8 million under UNDP core activities. The reduction incorporates, inter alia, the elimination of 360 core posts, the rationalization and streamlining of business functions, the delegation of authority, the decentralization of functions and the consolidation/merger of various organizational units.

4. The Advisory Committee welcomes the Administrator's efforts to implement the budget strategy described in his report on revised budget estimates for the biennium 1992-1993 (DP/1992/40), in which he set a target of a $30-40 million reduction. In this connection, the current decline in contributions to UNDP makes such a reduction timely. The Committee was informed that voluntary contributions to UNDP in 1993 are currently projected at approximately $930 million as compared to contributions of approximately $1,177 million in 1992 (i.e., $2,107 million for the biennium). The Committee was also informed that, in the light of the reduction in voluntary contributions, indicative planning figure (IPF) programming levels have been set at 75 per cent of the IPFs established for the fifth cycle by the Governing Council in its decision 90/34 of 23 June 1990. In the circumstances, the Administrator's volume reduction assumes an even greater importance.

5. In response to inquiries, the Advisory Committee was informed that voluntary contributions during 1994-1995 are currently projected at $1,970 million, which represents a further decline over the total for 1992-1993. Although overall income in 1994-1995 is expected to increase over the 1992-1993 total, the Committee is of the view that efforts to contain administrative costs should continue.

6. The Advisory Committee recommends that a concise statement of the Programme's current and projected income be included in the executive summary of the Administrator's future reports on the budget. In this connection, the

the Administrator's future reports on the budget. In this connection, the Committee notes that in his annual review of the financial situation, the Administrator will provide a comprehensive financial review of the activities financed from UNDP during the previous year and of the financial position as at the end of that year. That report will also include estimates of anticipated resources and expenditures for the following years. It is not the Committee's intention that the information to be included in the budget document replace that report; however, in its view, the inclusion of such information, in summary form, would place the Administrator's budgetary proposals in a better context. At its request, the Committee was furnished with charts that demonstrate the 1992-1993 income by source of funds and that projected for 1994-1995; these are reproduced in the annexes to the present document.

Revised budget estimates for 1992-1993

7. As shown in table IV.1 of document DP/1993/45, the Administrator's revised budget estimates for 1992-1993 for UNDP as a whole amount to $609,564,700 gross ($577,564,700 net) as compared to the approved appropriations (Governing Council decision 92/37) of $609,872,800 gross ($577,872,800 net). As is standard practice, no volume adjustment is proposed for core activities; the net reduction of $1.5 million in the core budget reflects currency and inflation adjustments as well as other cost changes, as discussed in paragraphs 30-32 of the Administrator's report.

8. The revised total of $101,256,200 for programme support and development activities reflects a net increase of $969,900. That increase, in addition to incorporating currency, inflation and other cost adjustments, includes a volume increase of $526,400 under the Office for Project Services (OPS) and a volume reduction of $438,000 for the United Nations Volunteers (UNV).

United Nations Volunteers

9. The volume decrease of $438,000 for UNV relates to the supplementary budget for UNV headquarters, which is adjusted in accordance with a staffing formula approved by the Governing Council.

10. The Advisory Committee notes from paragraphs 238-240 that the Governing Council, in its decision 91/46, requested the Administrator to consider streamlining the administrative functions of the UNV programme, in particular through further decentralization of routine decision-making authority to the field, with a view to achieving an overall reduction of administrative staff, particularly support staff, at UNV headquarters. The response of the Administrator, which involves, in addition to the above-mentioned decentralization of decision-making, the relocation of certain functions on a pilot basis in the 1994-1995 biennium, is described in paragraph 241 of his report.

11. In the opinion of the Advisory Committee, the expansion of UNV activities in the peace-keeping and humanitarian fields is a welcome development and one that should be pursued. To ensure that the capacity of the programme can be utilized in the most effective manner and that the volunteers can be mobilized as required, the Committee is of the view that a review of the current structure of UNV services should be undertaken. In this connection, the Committee notes that

many support functions are spread throughout the UNV services (para. 38) and that additional resources from the support cost earned have been used for temporary assistance as appropriate in connection with the UNV programme in the United Nations Transitional Authority in Cambodia (UNTAC). In the opinion of the Committee, there are questions as to whether the current structure allows for the urgent response often required in connection with peace-keeping and humanitarian activities, and whether sufficient authority is being delegated to the UNV programme from UNDP headquarters to enable it to respond expeditiously to requests in the peace-keeping and humanitarian areas.

Office for Project Services

12. The OPS volume growth under core ($526,400) and extrabudgetary ($3.2 million) relates, in part, to the staffing changes described in paragraphs 40-42 of document DP/1993/45, including the establishment of new posts. The need for the new posts, both budgetary and extrabudgetary, derive from the increase in OPS expenditure. In this connection, the Advisory Committee notes that OPS expenditures in 1992 (both those funded from UNDP general resources (budgetary) and from extrabudgetary resources) totalled an estimated $359 million and that the corresponding total in 1993 is projected at $400 million, or $759 million for 1992-1993, an increase of $125 million over the 1990-1991 biennium.

13. As shown in table IV.2, the revised budgetary and extrabudgetary administrative estimates for OPS for 1992-1993 amount to $32,793,300 and $33,269,900 respectively, for a combined total of approximately $66 million. As stated in paragraph 39 of document DP/1993/45, total support cost income earned by OPS in 1992 amounted to $30 million; the Advisory Committee was informed that income in 1993 is projected at $36 million.

14. As discussed in paragraphs 177-182 of document DP/1993/45, both the General Assembly and the Governing Council have stressed the need to decentralize and delegate authority to the field level; in its decision 92/37, the Governing Council requested the Administrator to report on the impact on the field structure of decentralization in OPS.

15. As noted in paragraph 180, the Administrator believes that "a successful delegation policy requires a concomitant budgetary policy to ensure that the workload that results from the delegation is reimbursed". In this connection, he recalls that a task force was established in July 1992 to study the issue of reimbursement to field offices for the workload associated with the delegation on behalf of OPS to field offices of implementation activities. The task force recommended that a general rate of 15 per cent of the OPS overhead earned on cost-sharing projects be apportioned to field offices in reimbursement for workload incurred on behalf of OPS. Although the task force limited its consideration to cost-sharing projects, the Administrator, in paragraph 182, states that he is now initiating action in consultation with OPS to institute a reimbursement regime following the same principles for all projects in which substantial implementation related tasks are requested from field offices.

16. The Advisory Committee was informed that in cost-sharing projects, the amount of work to be done at the field office level is quantified and included in the project budget. In the case of IPF projects, the cost of such work is

paid from the UNDP general resources. In both cases, an agreement to reimburse field offices for workload incurred on behalf of OPS would impact on the resources available to cover the administrative costs (see table IV.2), which, as mentioned above, currently approach the level of support cost income.

17. The Advisory Committee recommends that the impact of any such reimbursement on the capacity of OPS to deliver its total work programme be carefully monitored.

18. As shown in graph 5 of document DP/1993/45, the delivery from management service agreements (MSAs) accounted for $108 million of the total OPS delivery of $359 million in 1992. In response to inquiries regarding the income earned from MSAs, the Advisory Committee was informed that the cost of delivery is reimbursed at the estimated actual cost, which is usually between 5-6 per cent. That being the case, careful and accurate calculation of estimated actual cost is important since any underestimation will result in a situation whereby the delivery of MSAs would not be self-financing but would be subsidized by the general resources of UNDP.

19. In paragraph 236 of his report, the Administrator states that he is presenting the budget estimates for OPS with regard to 1994-1995 "for information purposes only at this stage" and that he will report orally to the Governing Council at its current session in the light of any action taken by the General Assembly at its resumed session regarding the proposed incorporation of OPS within the United Nations. The Administrator also states his understanding that the 1994-1995 budget estimates for OPS will be presented in the context of the 1994-1995 budget estimates of the United Nations.

20. In this connection, the Advisory Committee recalls that in his report A/C.5/47/88, the Secretary-General proposed to incorporate OPS into the Department of Development Support and Management Services as of 1 January 1994 and that, in the meantime, the current arrangements governing the operations of the Office continue to be in effect. The Secretary-General also stated that a task force with representation from the United Nations and UNDP and OPS had been established to review the procedures to be put in place for the incorporation of OPS as a semi-autonomous entity into the above-mentioned Department, taking into account various conditions enumerated by the Secretary-General which would have to be met in order for OPS to operate efficiently and cost-effectively.

21. In its related report (A/47/7/Add.15), the Advisory Committee, for the reasons provided in paragraph 28, welcomed the overall objective of the Secretary-General's proposal. At the same time, it emphasized that for the integration of OPS to succeed, a number of serious and potentially contentious issues must be dealt with by the task force. In this connection, the Committee requested the Secretary-General to submit a detailed report to the Committee on the modalities that have been worked out before the proposed date of incorporation, including information on how the above-mentioned conditions of operation are to be met (para. 30).

22. The Advisory Committee discussed various issues relating to the proposed incorporation with representatives of the Administrator who pointed out, inter alia, that because of UNDP accounts, the transfer would have to take place at the beginning of a calendar year, i.e., not mid-year. The Committee believes

and resolution of the issues to be addressed prior to the implementation of the Secretary-General's proposal; in other words, the overriding consideration should not be a pre-determined target date which may or may not prove realistic. Based on the progress achieved, the date of incorporation could be decided upon definitely at a later date and any necessary budgetary adjustments effected vis-à-vis the budgets of both UNDP and the United Nations.

Budget estimates for 1994-1995

23. The Administrator's proposed budget estimates for 1994-1995 for UNDP as a whole, $628,375,100 gross, incorporate a net reduction of 302 posts as follows:

Source of funds	Prof. & above	GS/FSL	NOs	LL	Total
Core activities	(69) a/	(85) b/	-	(206)	(360)
PSDA	(1)	-	63	-	62
Trust funds:					
UNCDF	(1)	(2)	-	-	(3)
UNSO	(2)	-	-	-	(2)
UNIFEM	-	1	-	-	1
TOTAL	(73)	(86)	63	(206)	(302)

a/ Of which 19 relate to headquarters (see table V.2 of DP/1993/45).

b/ Of which 39 relate to headquarters (see table V.2 of DP/1993/45).

24. The above staff reductions take into account the Administrator's proposals in respect of the senior management structure of UNDP, outlined in paragraph 52 of his report, namely a reduction of two posts at the Assistant Secretary-General level and 10 posts at the D-2 level. (The net reduction of D-2 posts amounts to 9 in view of the downgrading of one Assistant Secretary-General post). The Advisory Committee would have welcomed more information/justification in respect of the specific proposals contained in paragraph 52. The Committee is therefore unable to comment on each individual proposal. Rather, it recommends that the Administrator provide the Governing Council more detailed information concerning the rationale for his proposals and demonstrate a fuller explanation of how the operational needs and workload of the units concerned have been taken into account.

25. Similarly, the Advisory Committee had difficulty in evaluating the various reclassifications proposed by the Administrator and summarized in table V.2. In this connection, the Committee notes the Administrator's statement that the explanation for the reclassifications at the P-3 to P-5 level in the Regional Bureaux "lies in the overall rationale for the restructuring undertaken" and that "the reclassification is a precondition for the required strengthening at the mid-management level" (para. 78 of DP/1993/45). While not opposed to the

the mid-management level" (para. 78 of DP/1993/45). While not opposed to the objective of a strengthened mid-management, the Committee believes that some additional justification should have been provided with respect to the individual requests. The Committee also trusts that the stated objective will, in fact, be achieved and that the reclassifications will not be used solely as mechanisms for the promotion of current incumbents.

26. The Administrator acknowledges that the reduction of 360 core posts entails some transitional costs; although the reductions will be implemented in very large measure through attrition, turnover, reassignments and the recruitment freeze currently in place for headquarters General Service, some agreed separations will be required. That being the case, he states his intention to obligate the amounts of any termination secured during 1993 against the 1992-1993 budget.

27. The Administrator also notes that although some savings may be achieved prior to December 1993 in respect of posts that are vacated before 1 January 1994, other posts eliminated on 1 January 1994 may in fact be vacated at a later date; i.e. additional costs may arise. In addition, he states that it will be necessary to fund, from savings, systems development, training and other related costs "that are a precondition to the rationalization and streamlining of business functions which underlie many of the reductions". Because some of the costs will continue into the 1994-1995 biennium, the Administrator proposes to obligate and apply savings earned in 1993 up to a ceiling of 1.5 per cent of the revised 1992-1993 core appropriation of $479,576,000 gross to cover such transitional costs.

28. The Advisory Committee has no objection to this course of action. At the same time, it trusts that the management of the reduction will not affect the operational needs of the programmes.

29. The Advisory Committee notes from paragraph 64 that a separate Office of Budget and Management will be established "to give new focus and priority to the need for cost effectiveness, efficiency and enhanced accountability".

30. The Office of Budget and Management will also "take on responsibility for monitoring the implementation of external and internal audit recommendations", thereby ensuring an institutional systematic follow-up as required by General Assembly resolution 47/210" (para. 64). The Advisory Committee recalls that previously the Division of Audit and Management Review monitored the implementation of both its recommendations and those of the external auditors, a situation which the Committee had previously questioned. The establishment of a separate unit which is not also engaged in auditing to do such monitoring is, in the Committee's opinion, a welcome development and one which also responds to the Board of Auditor's concerns concerning the separation of audit and operational functions.

31. The net volume reduction in respect of field offices for 1994-1995 amounts to $31.3 million. The Administrator discusses the strategies adopted by the Regional Bureaux to implement the targeted reductions in paragraphs 95-100 of his report, noting that the strategies "exhibit different characteristics reflecting different realities and opportunities". In this connection, the Advisory Committee notes that the number of offices and the related cost

structures vary significantly between regions (para. 95). The Committee further notes that the reduction includes savings arising from the closing of the field offices in Oman and the former Yugoslavia. No proposals for closing additional field offices are contained in the Administrator's estimates.

32. In this connection, the Advisory Committee notes the Administrator's discussion in paragraphs 144-154 with regard to the UNDP field presence. As recalled in paragraph 143, Governing Council decision 92/37 requested a review of a number of related aspects of the UNDP field structure, including the option of closing field offices and making use of regional offices. As discussed in his report, the Administrator believes that a regional presence cannot replace the functions performed at the national level (para. 151); he is firmly committed to maintaining a universal presence at the national level (para. 155). At the same time, the Administrator emphasizes that "universality of presence should not be confused with uniformity of structure"; in other words, there exists a wide range in the profiles of the field offices and the functions performed by these offices.

33. In the opinion of the Advisory Committee, the concerns regarding universality must be balanced with the need to contain costs; it therefore welcomes the Administrator's efforts and initiatives to do so and urges that the matter be kept under review.

34. The concept of the regional service centre, which addresses the issue of relocating service and processing functions from a high-cost to a low-cost area, is discussed in detail in paragraphs 101-109 of the Administrator's report. The Advisory Committee recalls that in his report on revised budget estimates for the biennium 1992-1993 (DP/1992/40), the Administrator stated that the service and processing functions that could be relocated included accounts; aspects of personnel administration; data processing; personnel recruitment (OPS and UNV); procurement; management review and audit; support to national execution; training and evaluation. He also indicated that a pilot test to identify the most appropriate functions for relocation would be implemented during the 1992-1993 biennium.

35. The Advisory Committee notes from the Administrator's current report that initial findings of the pilot test have led to a new approach in the accounts area, namely to keep the documentation in the field offices and to contract with an internationally reputable audit and accounting firm to provide a range of audit and accounts examination services in each field office on a regular basis (para. 104). The Administrator is of the view that such an approach will reduce cost by providing the service at the location and that coverage will be expanded since an audit and accounts examination function, on a monthly basis if necessary, could be provided in every office.

36. In response to inquiries, the Advisory Committee was informed that although the processing of audits and accounts would be kept in the field offices, the regional service centres would act as the focal point for the relationship between UNDP and the subcontractor, thereby maintaining a decentralization of functions from headquarters.

37. The Administrator estimates the cost of the regional service centre for the 1994-1995 biennium at approximately $2 million; the net cost to the UNDP core

budget amounts to $880,000 after reimbursement by, inter alia, the United Nations Population Fund (UNFPA) and OPS to UNDP is taken into account.

38. In its report DP/1992/39, the Advisory Committee stated that the concept of regional service centres was worth pursuing (para. 16); it welcomes any initiative that will lead to the delivery of services in a cost-effective manner with optimum results. However, as acknowledged by the Administrator in his current report, it is too early to draw definitive conclusions with regard to the regional service centre concept; furthermore, the lack of specific information makes an assessment of the estimates by the Committee difficult at this stage. While not objecting to the estimates, the Committee recommends that the Administrator submit an updated report on the progress made in implementing this concept in the context of his revised budget estimates for 1994-1995. That evaluation should include, inter alia, a breakdown of the costs incurred by external firms with an indication of which costs relate to field offices and which to the regional service centres. In addition, specific information regarding the actual services performed at the regional service centres should be provided.

39. In the meantime, the Advisory Committee draws the attention of the Governing Council to areas which it believes merit attention and scrutiny. As stated in paragraph 104, an international auditing and accounting firm is to provide a range of audit and accounts examination services in each field office on a regular basis. The Committee believes that the external firm contracted must be provided with clear terms of reference that should provide for a division of responsibility between the accounting and audit functions to be performed. In addition, the terms should be drawn up in a manner that would avoid conflicts with the internal audit or external audit of UNDP and the United Nations respectively.

40. The UNDP presence in Europe and the Commonwealth of Independent States is discussed in paragraphs 111-130 of the Administrator's report. The total costs of the United Nations interim offices and the UNDP temporary offices in 1994-1995 amount to $7.8 million, of which $4.8 million would be included in the UNDP core budget. In this connection, the Advisory Committee recalls that, as stated in its report A/47/7/Add.16, "the Secretary-General intends to submit a broad policy-oriented report to the General Assembly at its forty-eighth session which would include a discussion, among other things, of the future status and role of the interim offices ..." (para. 4).

41. Paragraphs 163-188 address the long-standing question of services provided by field offices to support the operational activities of the United Nations. As shown in table VI.3, the results of a workload study carried out in 1992 indicated that 28.8 per cent of field office workload related to support to the operational activities of the United Nations.

42. In paragraph 174, the Administrator states that he believes that the full cost of non-UNDP workload should be charged to UNDP but that the cost should be reflected separately and transparently. Accordingly, he presents a new appropriation line entitled "Support to the operational activities of the United Nations" (see table 2 of DP/1993/45). The amount of $96.9 million shown in respect of that line for 1994-1995 represents the above-mentioned 28.8 per cent of the total field office cost, which amounts to $336,741,900 in 1994-1995, as

shown in table I of the Administrator's report. In line with the Administrator's proposal, the appropriation table (table 2) divides the total of $336.7 million between the line entitled "Field offices" under UNDP core activities ($239.8 million) and the support to operational activities line under Programme support and development activities (PSDA) ($96.9 million).

43. The Advisory Committee notes that the effect of showing the non-IPF related expenditures under PSDA will be to decrease the administrative support ratio. In this connection, it recalls that in his report DP/1991/49, on revised budget estimates for 1990-1991 and budget estimates for 1992-1993 (DP/1991/49 (vol. I)) and Corr.1 and DP/1991/49, the Administrator stated that "the field office network is considered an integral part of the UNDP operational and administrative budget and the efficiency of UNDP operations is regularly measured by comparing, inter alia, the cost of the field office network to IPF programme delivery" (para. 64).

44. As previously noted by the Advisory Committee in its report DP/1992/39, the identification of the non-IPF-related costs is a presentational issue, "i.e., the funds for each field office would still be allotted and managed as a lump sum, thereby avoiding a situation which ... would be administratively cumbersome and lead to artificial budgetary practices in field offices" (para. 25).

45. As shown in paragraph 2 above, the total budget for PSDA in 1994-1995 amounts to $111,511,400, excluding $96.9 million for support to operational activities. The total of $111.5 million includes provision for programme development activities, Development Support Services (DSS), OPS, the Inter-Agency Procurement Services Office (IAPSO), UNV, national execution and programme support.

46. As stated in paragraph 208, the only element of PDA currently field-based is the economist programme, which the Administrator proposes to maintain as a distinct programme (see paras. 210-214 of DP/1992/45). The Administrator also proposes to expand the field component of PDA to include networks of national officers in the areas of sustainable development and HIV/AIDS. Specifically, as discussed in paragraphs 215-227, the Administrator proposes to establish 41 national officer posts in respect of sustainable development and 22 national officer posts in respect of HIV/AIDS, at a cost of $1.9 million and $0.9 million respectively.

47. The Advisory Committee notes that the Administrator will report to the Governing Council at a later date regarding the progress accomplished in developing both programmes. In this connection, the Committee trusts that the necessary coordination with relevant intergovernmental bodies and other entities of the system will take place.

48. Paragraphs 243-258 contain the Administrator's report on the use of Development Support Services during the 1990-1991 biennium, submitted pursuant to Governing Council decision 91/46. In paragraph 248, the Administrator states that the average cost per month of the 928 service contracts entered into in 1990-1991 was $2,360. A total of 75.3 per cent of the consultants were local and 24.7 per cent came either from the region or subregion or from outside the region.

49. The Advisory Committee recalls that the Board of Auditors also stated that approximately 25 per cent of the DSS consultancies engaged in 1990 by field offices in Asia and the Pacific as well as in Latin America and the Caribbean were not locally recruited and that the average fees were two thirds higher than those of local consultants (para. 171 of A/47/5/Add.1). The Board also reported the Administrator's response that in future a greater use of nationals was expected.

50. The Advisory Committee trusts that this expectation will be realized; in its opinion, provided that the consultants are primarily local and that their fees are in line with local conditions, DSS may provide a cost-effective means of providing Resident Representatives with necessary support.

51. Headquarters and field support to national execution is discussed in paragraphs 228-235 of document DP/1993/45. The proposed allocation for support to national execution in 1994-1995 amounts to $3,161,500 and includes a net volume increase of $150,000.

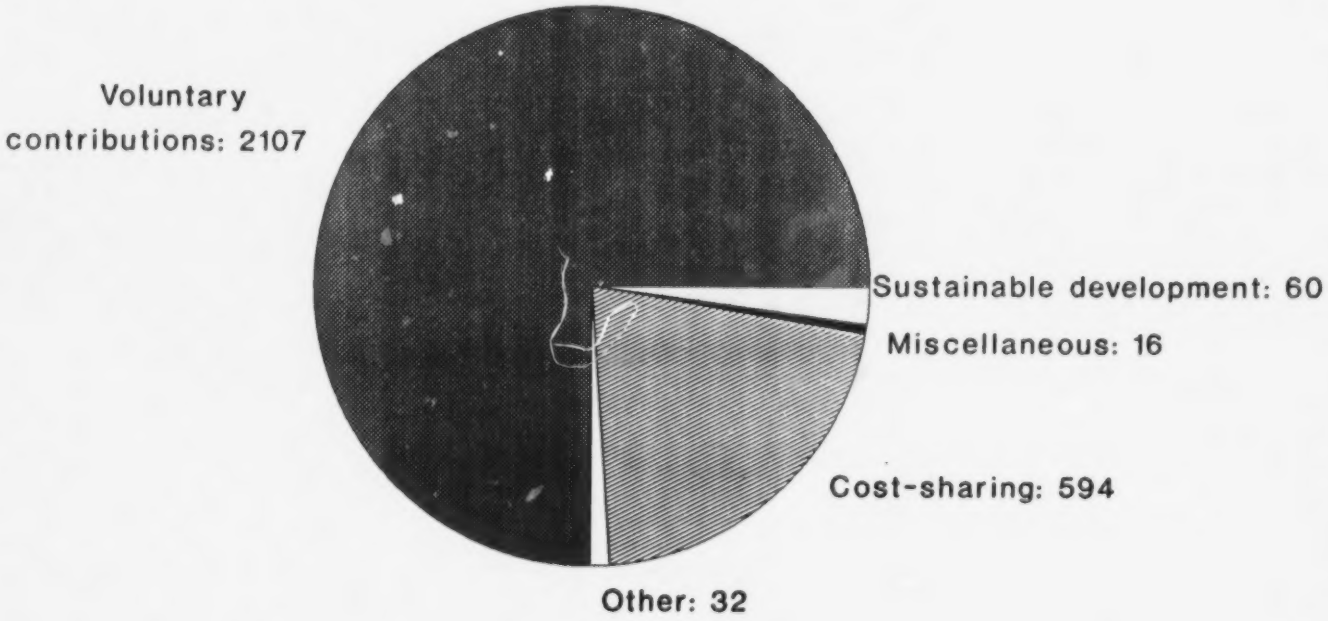
52. The Advisory Committee notes from paragraph 230 that in the 1992-1993 biennium audit coverage by the National Execution Audit Section has been expanded to include government-executed projects financed from regional, interregional and trust fund projects. In addition, pursuant to recommendations made by the Board of Auditors, the development of long-term audit plans aimed at ensuring that each nationally executed project is audited at least once in its lifetime has also begun. The Committee welcomes efforts to enhance support to national execution. In this connection, it looks forward to receiving the report of the Administrator referred to in paragraph 232 of his report.

53. Part VIII of the Administrator's report relates to the appropriations of certain trust funds administered by UNDP. In this connection, the Advisory Committee notes that the Administrator, pursuant to the Committee's recommendation in its report DP/1991/62 and Governing Council decision 91/46 has included information concerning each fund's project/programme support expenditure as well as information concerning actual and projected income.

Annex I

INCOME BY SOURCE OF FUNDS, 1992/1993
(estimate 2/9/93,in millions of dollars)

TOTAL INCOME: $2809



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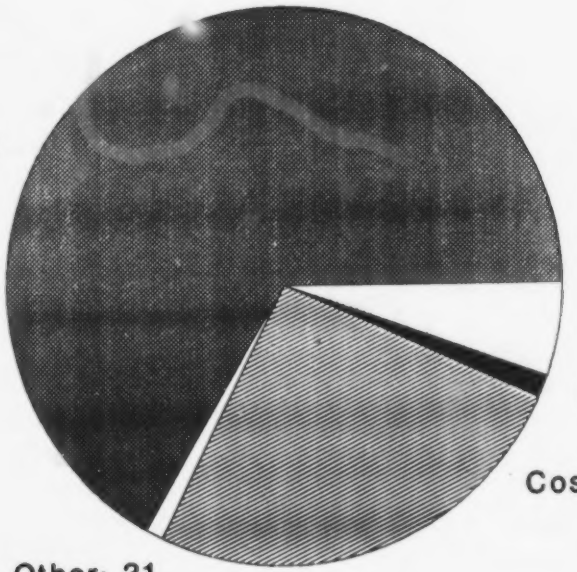
INCOME BY SOURCE OF FUNDS, 1994/1995
(estimate 2/9/93.in millions of dollars)

TOTAL INCOME: $2956



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FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

Audit reports

Report of the Administrator

SUMMARY

The present document contains the comments of the Administrator concerning the report of the United Nations Board of Auditors for the biennium ending 31 December 1991. In particular, it provides further information on follow-up action taken in response to Governing Council decision 92/38 of 26 May 1992 and General Assembly resolution 47/211 of 22 December 1992, as well as a timetable of action on recommendations of the Board of Auditors, as called for in paragraph 10 of the General Assembly resolution.

Document DP/1993/48 summarizes the action taken by the executing agencies in response to the significant observations of their external auditors on their 1991 accounts relating to funds allocated to them by the United Nations Development Programme. Document DP/1992/48/Add.1 contains the audited reports of the executing agencies as at 31 December 1991.

INTRODUCTION

1. In accordance with previous Governing Council decisions and General Assembly resolution 47/211 of 22 December 1992, the Administrator is bringing to the attention of the Council the report of the Board of Auditors on the United Nations Development Programme (A/47/5/Add.1), the report of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) thereon (A/47/500) and the related comments made in the Fifth Committee.

2. The external audit reports and audited accounts of executing agencies relating to funds allocated to them by UNDP as at 31 December 1991, submitted in accordance with regulation 17.1 of the UNDP Financial Regulations, are contained in document DP/1993/48/Add.1, together with a summary of the status of funds submitted by all executing agencies as at 31 December 1991. Document DP/1993/48 summarizes significant observations of the external auditors of the executing agencies on their 1991 accounts relating to funds allocated to them by UNDP.

I. UNITED NATIONS DEVELOPMENT PROGRAMME

3. The Administration provided a detailed written response to all the observations made by the United Nations Board of Auditors. A summary of those comments are included in the report of the Board of Auditors.

4. The report of the Board of Auditors was very comprehensive. Owing to the length of the audit report and the extensive response by the Administration, including those provided to the Fifth Committee, no attempt will be made in the present document to summarize their contents. The document does contain, however, in tabular format, the summary of recommendations of the Board of Auditors (from para. 7 of document A/47/5/Add.1), a synopsis of the Administration's response to the Auditors and the Fifth Committee on each recommendation, and the current status of action taken or planned to be taken by the Administration, as called for in paragraph 10 of General Assembly resolution 47/211. In this regard, the Administration is pleased to note that the General Assembly acknowledged, in paragraph 11 of its resolution 47/211, the initiatives taken and progress made by UNDP in following up external audit findings and recommendations. The present document does not reflect other comments or discussions of the Fifth Committee in that in its resolution 47/211 the General Assembly broadly endorsed all recommendations and conclusions of the Board of Auditors and the comments thereon contained in the ACABQ report. Information on further follow-up actions taken which may be available by June 1993 will be reported orally to the Governing Council at its fortieth session.

5. In its resolution 47/211, the General Assembly requested the executive heads of United Nations organizations and programmes to: submit an action-oriented report, to the General Assembly at its forty-eighth session, outlining steps to be taken in response to the recommendations of the Board, including timetables for their implementation; ensure that all existing financial and staff regulations and rules are strictly complied with, including those relating to internal control over expenditure and those which assign personal responsibility and accountability in their performance; report to the

General Assembly at its forty-ninth session on measures taken to strengthen internal controls in those areas where weaknesses have been identified; take urgent steps to strengthen the independence and effectiveness of the internal audit function; strengthen measures to ensure an adequate response to internal audit findings; and accelerate efforts to develop common accounting standards for the organizations of the United Nations system and to take these standards into account in the preparation of their financial statements for the period ending 31 December 1993.

6. The Administrator's response to the need for action by executive heads on observations of the Board of Auditors was provided by the Assistant Administrator, Bureau for Finance and Administration to the Fifth Committee at the forty-seventh session of the General Assembly. He stated that UNDP had taken a pro-active approach in dealing with the important policy and procedural issues raised and had taken concrete follow-up actions on the recommendations of the Board of Auditors. He indicated that UNDP had developed an action-oriented work programme with targets and specific responsibilities for follow-up action to external audit observations. He also added that UNDP had put in place a number of important initiatives, with the approval of the Governing Council, that should help to strengthen its field capacity, improve monitoring, management and reporting, and enhance accountability in the coming months and years. With respect to the issue of stricter adherence to financial and staff rules and regulations, particularly those relating to consultants' contracts, the Assistant Administrator informed the Fifth Committee that revised guidelines were to be put in place, confirming the applicability of Financial Rule 114.21, clarifying the delegated authorities and establishing the necessary reporting and accountability mechanisms. The Administration has since issued a further circular to all staff bringing their attention to the General Assembly request for strict adherence and referring all staff to their personal responsibilities and implications for financial liability, in line with the circular issued to all staff on 30 August 1990 and reported to the Governing Council in document DP/1992/41.

7. All other issues raised by the General Assembly in its resolution 47/211 are dealt with in the summary table contained in the present document.

EXTERNAL AUDIT FOLLOW-UP ACTIONS AND TIMETABLE

Status as of 25 March, 1993

Board of Auditors recommendations	Para. ref	UNDP response to Fifth Committee and External Auditors	Remarks/ Proposed steps	Status and target date
Board of Auditors recommendations				
1 Office automation efforts should be planned carefully and coordinated from the beginning of a project.	7,137,142	Agree. Much progress has been made: Each headquarters and field office is now required to develop and update annually an office automation plan which includes a cost-benefit analysis in accordance with recently issued standards and guidelines.	Process will continue to be monitored, as part of normal operations, to ensure ongoing compliance.	Completed
2 Pertinent instructions for the hiring of consultants should be observed.	7,146,149, 154, 158,161	UNDP applies the standing instructions very strictly, with exceptions authorized only for very special circumstances and even then, specifically, on the approval of the Administrator. In 1992 there were 11 such cases.	The Division of Personnel will be re-issuing instructions, in April 1993, to all Managers to ensure strict adherence to established rules and procedures.	Ongoing 1 April 1993

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Source: Board of Auditors Report, 47th G.A., A/47/5/Add.1

	Board of Auditors recommendations	Para ref	UNDP response to Fifth Committee and External Auditors	Remarks/ Proposed steps	Status and target date
3	Decisions on personnel matters should be adequately accounted for by documentation and justified by the relevant instructions.	7,179	Agree. Corrective actions have been taken, and measures/ mechanisms put in place to ensure strict adherence to the relevant instructions as well as proper documentation and justification.	The Division of Personnel has implemented mechanisms to ensure that proper justification, monitoring and documentation is now standard practice.	Completed
4	Problem of timely and proper financial completion of UNCDF projects should be systematically addressed on a broad scale.	7,231,232	Agree . Notwithstanding the efforts under way and acknowledged by the auditors, this will be taken up on a broader scale in the context of deliberations on national execution policy, procedures and processes.	A circular is to be issued in March 1993 to all UNCDF staff to bring their attention to this. UNDCF senior management staff will continue to monitor proper adherence to this instruction.	Ongoing 1 March 1993
5	Measures should be taken to establish adequate property control, including accountability.	7,27,114, 119,130, 134	UNDP recognized the problems and the need to take corrective actions. A complete review of policies and procedures is under way. New measures are expected to be introduced in the near future, with accountability mechanisms.	A total quality team has been established and is currently working together with end users, on the requirements and design of a functional inventory system.	Ongoing 30 June 1993

Source: Board of Auditors Report, 47th G.A., A/47/5/Add.1

	Board of Auditors recommendations	Para ref	UNDP response to Fifth Committee and External Auditors	Remarks/ Proposed steps	Status and target date
6	Actual costs for management services should be established on a factual basis .	7,46,181 to 186	OPS disagrees that the level of fees are low. The level reflects actual administrative and management service costs. The fees cannot be compared to those related to AOS. New guidelines will be issued by end 1992 reflecting use of OPS service unit cost.	The new guidelines were issued on 30 December 1992.	Completed
7	Project appraisal and approval procedures should be streamlined considerably.	7,48,192 to 199	The Management Board took the decision to streamline and decentralize the process, while ensuring appropriate accountability mechanisms. At the same time, the effectiveness of headquarters processes is under review.	The procedures and guidelines related to the decision of the Management Board are being worked out based on a conceptual framework developed by the Bureau for Policy, Programmes and Evaluation . It is expected that the Regional Bureaux will be in a position to implement the new guidelines, with increased approval and appraisal authorities to the field offices, by the end of 1993. Notwithstanding this, the Regional Bureaux have conveyed the Management Board decision to field staff.	Ongoing 31 December 1993
8	In-depth evaluations should be used more effectively.	7,49 to 52, 202 to 209	Concur with the auditors that there are some instances where exceptions may be made for evaluation requirements, if adequately justified. In line with the PPM, such justification should be ex-ante, transparent and adequate.	The Regional Bureaux have confirmed that corrective actions are being taken to ensure that in-depth evaluations need not be scheduled when the nature of specific projects does not so warrant. A circular will be issued to all field offices in March 1993.	Ongoing 1 March 1993

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Source: Board of Auditors Report, 47th G.A., A/47/5/Add.1

	Board of Auditors recommendations	Para ref	UNDP response to Fifth Committee and External Auditors	Remarks/ Proposed steps	Status and target date
9	Internal audit mandate should be revised to provide an adequate legal basis.	7,54,213 to 214	UNDP took immediate action to present changes to its financial regulations and rules. These were approved by Governing Council decision 92/36 and the changes have already been reflected.	No further action required.	Completed
10	The Division for Audit and Management Review should not have operational responsibilities.	7,55,215 to 219	This refers to the accountability of Governments under the modality of national execution, and the coordination and issuance of manuals. UNDP has initiated a review of these functions with a view to confirming that the current arrangements do not involve any conflict of interest.	Initial review indicates that no conflict of interest exists. However, this will continue to be monitored as part of the regular work programme of the Division for Audit and Management Review.	Completed
11	Improve audit coverage.	7,56,220 to 222	UNDP agreed that, because of staffing/ resource constraints, audit coverage was less than desired. Cost -effective remedial measures have been included as part of the pilot scheme initiating a regional service centre in 1992.	The first regional service centre was established in late 1992 in Malaysia, covering the Asia and Pacific region. As an integral part of the centre, auditors and audit firms are being identified to perform audits in the region. Based on experience gained in this pilot exercise, similar coverage will be extended to other regions. This should significantly help to increase audit coverage of UNDP activities in the most economical way.	Ongoing 31 December 1993

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Source: Board of Auditors Report, 47th G.A., A/47/5/Add.1

Board of Auditors recommendations		Para ref	UNDP response to Fifth Committee and External Auditors	Remarks/ Proposed steps	Status and target date
12	Efforts should be made to obtain timely audited statements from executing agencies.	7,9,63 to 66, Annex II, paras 1 to 3	This arises because of the short time frame between closure of accounts and the date audit certificates are required . UNDP continues to raise this issue in CCAQ (FB) to improve timeliness of reporting. However, as noted by the auditors, in effect, this does not appear to be a problem and accounts are properly reflected.	No further action required at this stage.	System wide
Past recommendations: Annex to BOA report					
13	The need to finalize pending standard basic executing agency agreements with FAO, WHO and ILO.	Annex I, paras. 1 to 3	The standard basic executing agency agreement with WHO has been signed. Agreement with ILO expected by end November 1992. Negotiations are ongoing with FAO with a view to reaching agreement on a number of issues by the end of 1992.	Both the ILO and FAO agreements have now been agreed upon. Final formal signatures are expected to be completed by March 1993.	Completed 1 March 1993

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Source: Board of Auditors Report, 47th G.A., A/47/5/Add.1

	Board of Auditors recommendations	Para ref	UNDP response to Fifth Committee and External Auditors	Remarks/ Proposed steps	Status and target date
14	The number of projects to be executed should be strictly controlled so as not to exceed the management capacity of the Office of Project Services (OPS).	Annex I, paras. 10 to 17	Since 1991 a number of measures have been taken to increase operational efficiency. Combined with increased staffing approved in May 1992 this has resulted in a drop in the average Project Management Officer's portfolio from 41 to 32.	Further decrease in the average number of projects per PMO reflects the efficiency gains of the various measures undertaken by OPS in 1991 and 1992 respectively. The average portfolio is now 30 projects per PMO. In addition, Division Chiefs no longer manage projects and are, therefore, able to devote their full time to Division management.	Completed
15	New development initiatives should be tested for a trial period and only fully implemented after the test is evaluated (This refers to the Economists Programme in Africa.).	Annex I, paras. 18 to 20	A final report of an evaluation of this programme is expected in November 1992. Once UNDP has reviewed this it will be in a position to respond and implement required corrective actions accordingly.	The recommendations of the evaluation report are being reviewed by senior management. The main findings, in summary are: (a) the programme is fully justified and should be expanded to non-LDCs; (b) there should be one economist per country; (c) the programme should be integrated into UNDP activities; (d) UNDP should improve understanding with other multilateral agencies of this programme, such as IMF/World Bank, AfDB and ECA; (e) the work programme should be prepared by Resident Representatives.	Ongoing 1 June 1993
16	Budget management and completion of projects executed by the Office of Projects Services needed to be improved considerably.	Annex I, paras. 21 to 24	629 projects were either operationally or financially completed in the first nine months of 1992. As at September 1992, 277 budgets out of 1646 showed over -expenditures more than $1000. These were mostly within limits allowable by the guidelines. The new OPS information system, which should be in place by end 1993, will also help improve project budget management.	During 1992, semi-final or final budget revisions were processed for a total of 716 projects. Continuous efforts will be maintained, as part of the normal work programme, to ensure that this is kept closely monitored.	Ongoing 31 December 1993

Source: Board of Auditors Report, 47th G.A., A/47/5/Add.1

	Board of Auditors recommendations	Para ref	UNDP response to Fifth Committee and External Auditors	Remarks/ Proposed steps	Status and target date
17	The practice of retroactive signing of consultancy contracts in the Office of Projects Services should be discontinued : uncompromising efforts needed.	Annex I, paras. 25 to 27	Following internal instructions issued to all staff, the number of post-facto contracts declined drastically. Between July 1 1991 and 30 September 1992 there were only 19 such cases, which were approved only after very careful and thorough review, with full written justification.	Continuous close monitoring is maintained by both OPS and the Chief Procurement Officer. Mechanisms have been established , in both OPS and the Bureau for Finance and Administration, to ensure proper accountability and necessary checks and balances. Furthermore, the post-facto cases in 1993 will be closely monitored and reviewed by the Chief Procurement Officer in January 1994 to identify where further improvements in process, procedures, accountability and reporting might be made.	Ongoing 31 January 1994
18	OPS should provide management services only on a sound legal basis with both funding donor and recipient countries.	Annex I, paras. 28 to 30	OPS continues to believe that adequate legal arrangements do exist within established MSA procedures and confirms that no loss has ever occurred under this arrangement nor is it likely to do so in the future.	As indicated to the auditors, their remark referred to one specific donor, with whom it was not necessary to establish any legal contractual agreement since the Management Service Agreements are not between the donor and UNDP but rather between UNDP and the recipient country , for whom OPS provides the services. As such, no further action is required.	Completed
19	OPS should use its authority more consistently to delegate procurement activities: actual development will have to be observed.	Annex I, paras. 31 to 33	The appropriate delegation of authority to the field was issued in April 1992.	No futher action required.	Completed

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Source: Board of Auditors Report, 47th G.A., A/47/5/Add.1

	Board of Auditors recommendations	Para ref	UNDP response to Fifth Committee and External Auditors	Remarks/ Proposed steps	Status and target date
20	Amendments should be made to the Standard Basic Executing Agency Agreement to include assessment of efficiency and all audit findings.	Annex I, paras. 4 to 9	This matter has been drawn to the attention of the agencies. CCAQ(FB) has indicated that members are reluctant to pursue the matter further. ACABQ has recommended that the Panel of Auditors should review this and report to the General Assembly. UNDP awaits outcome of this review.	At the request of CCAQ (FB), the Panel of Auditors reviewed the question of the nature and scope of information submitted to the UNDP external auditors by the external auditors of the executing agencies. As a result of its discussions, the Panel issued an audit guideline which defines procedures, documentation, cooperation and reporting considerations. No further UNDP action is, therefore, required.	Completed
21	Aspect of general deterrence in prevention of fraud needs more attention.	Annex II, paras. 10 to 12	As previously reported, UNDP issued circulars and established an ad hoc committee on financial liability. Following its deliberations of a few cases, corrective action was called for and action taken accordingly.	No further action required. This issue remains under constant review and scrutiny by the Chief Financial Controller, as part of the Bureau for Finance and Administration's regular work programme.	Completed
22	Before establishing new or sub trust funds, the impact on administrative workload should be assessed.	Annex II, paras. 13 to 15	All trust or sub-trust funds continue to be accepted only on the basis of assured funding and covering all administrative costs.	UNDP continues to believe that the incremental workload related to trust funds is adequately covered by the extrabudgetary funds provided. The systems reprogramming necessitated by the successor arrangements for support costs has been defined, including requirements for trust funds and management services. The new system is now scheduled for implementation later in 1993.	Ongoing 1 October 1993

Source: Board of Auditors Report, 47th G.A., A/47/5/Add.1

	Board of Auditors recommendations	Para ref	UNDP response to Fifth Committee and External Auditors	Remarks/ Proposed steps	Status and target date
23	An up-to-date strategy for temporary employment needed to be developed: existing rules should be complied with.	Annex II, paras. 16 to 18	In line with Governing Council decision 92/37, UNDP has commenced preparations of the design of the new contractual arrangement. UNDP will also be reporting to the Governing Council in 1993 and a comprehensive report in 1994 on the experience gained.	Implementation of the new form of contract is expected in July 1993.	Ongoing 1 July 1993
24	Guidelines should be issued clearly delineating between programme and operating expenditure.	Annex II, paras. 4 to 6	UNDP established clearer delineation with its proposal of the PSDA category which was approved by the Governing Council in decision 91/46. UNDP will be reporting further to the Council in June 1993 in response to the request by the Council for specific criteria for the allocation of posts to the PSDA line.	This issue is being addressed by the 1994-1995 budget strategy, as contained in Governing Council document DP/1993/45 on revised budget estimates for 1992-1993 and budget estimates for 1994-1995.	Ongoing 1 June 1993
25	Detailed instructions are needed to inform all personnel of responsibility and financial liability: implementation/ enforcement needed.	Annex II, paras. 7 to 9	As reported in DP/1992/41, this has been implemented.	No further action required.	Completed

Source: Board of Auditors Report, 47th G.A., A/47/5/Add.1

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FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

Audit reports

Note by the Administrator

SUMMARY

The present note summarizes significant observations of external auditors of the executing agencies on their 1991 accounts relating to funds allocated to them by UNDP. Pursuant to Governing Council decision 92/39, the Administrator has included comments on corrective action taken in response to observations made by the external auditors. Document DP/1993/48/Add.1 contains the audited accounts and audit reports of the executing agencies as at 31 December 1991.

INTRODUCTION

1. The external audit reports and audited accounts of executing agencies relating to funds allocated to them by the United Nations Development Programme (UNDP) as at 31 December 1991, submitted in accordance with regulation 17.1 of the UNDP Financial Regulations, are contained in the addendum to the present document (DP/1993/48/Add.1), together with a summary of the Status of Funds submitted by all executing agencies as at 31 December 1991. Sections I to XXI of the present document contain the Administrator's comments on significant observations made in the audit reports of those agencies.

I. UNITED NATIONS DEVELOPMENT PROGRAMME

2. The Administrator's comments concerning the report of the United Nations Board of Auditors are contained in document DP/1993/49.

II. UNITED NATIONS

3. In the course of its audit of the United Nations, the United Nations Board of Auditors examined the administration of technical cooperation activities carried out by the Department for Technical Cooperation for Development. The Board's findings are reflected in paragraphs 280 to 282 of its report to the General Assembly.

III. UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

4. The external auditors issued an unqualified opinion on the financial statements for the biennium ended 31 December 1991. Although the financial statements were not qualified, the auditors made the following observations:

(a) Accounts payable. As a result of their examination of the system for recording accounts payable, the auditors concluded that there was a possibility that some invoices and claims from creditors outstanding as at 31 December 1991 may not be recorded in the reported balances;

The auditors recommended that a more appropriate accounting system for recording outstanding liabilities should be established;

UNIDO Administration did not implement the recommendations of the external auditors as the current systems and procedures for raising and recording obligations, including accounts payable, were adequate to ensure that all material expenditure was recorded and reported in the relevant accounting period. In their view, a system of centralized registration would require the assignment of additional staff to this specific task. In the Administration's view, the cost/benefit of this initiative is not beneficial;

(b) Unliquidated obligations. The external auditors observed that although the percentage of unliquidated obligations to total expenditure for the

current biennium had slightly decreased since 1989, the total amount of unliquidated obligations is rather high.

There was also a substantial delay in the processing of Field Inter-Office Vouchers (FIOVs) and FIOVs received in February 1991 were not processed at the end of 1991. The auditors stated that these delays were unacceptable and that every effort should be made to process all FIOVs promptly.

UNIDO administration acknowledged that large amounts of unprocessed FIOVs resulted in a proportionately high amount of unliquidated obligations (approximately 60 per cent). It also indicated that the backlog of approximately nine months in processing charges from Field Offices covering UNDP and other sources of funds is a result of the extreme shortage of staff in the Unit processing these charges. Additional staff was deployed to the Unit in May 1992. It is expected that the FIOV processing will be more current as of the end of the financial year 1992, when the accounting records are closed at the end of January 1993;

(c) Timely submission of project performance evalation reports (PPERs). At the time of the external auditor's review, in February 1992, only 65 per cent of the PPERs scheduled for 1991 had been received. UNIDO administration promised to do its utmost to reduce the delays.

The auditors recommended that UNDP Administration should fully support the action taken by UNIDO towards a timely submission of the PPERs.

The Administrator fully supports the importance of the timely submission of PPERs and is advising UNIDO accordingly;

(d) Quality of PPER exercises. The auditors learnt that, in 1990, for approximately 48 per cent and 57 per cent of the PPERs reviewed with respect to projects backstopped by the Department of Industrial Operations (DIO) and other parts of the Secretariat, 12 per cent and 29 per cent (DIO and non-DIO projects) respectively, were found poor and unacceptable.

UNIDO administration considered that, in general, the performance reports were more than acceptable and that, overall, the internal evaluation system is functioning well.

The auditors strongly recommended that UNDP Administration should take appropriate steps with a view to further improving the quality of the PPER exercises.

The Administrator is pleased to inform the Governing Council that UNDP will be discussing this matter with UNIDO and that he has referred it to the Bureau for Policy and Programmes Evaluation for further follow-up;

(e) Timely production of project outputs. The auditors noticed that, in 1990, only 44 per cent of the projects were found to be performing "more than planned" or "as planned", as against 60 per cent in 1989. "Project design" and "input delivery" were identified as main problem areas.

Management shared the auditors' view that inadequate project design is a very likely source of problems.

The auditors strongly recommended that UNDP Administration should assist UNIDO in its endeavour to preclude the recurrence of factors affecting timely production of project outputs.

The Administrator is contacting UNIDO to discuss this issue and identify more specifically the details of problems encountered, including in what way UNDP may assist the process.

IV. INTERNATIONAL LABOUR ORGANISATION

5. The external auditors issued an unqualified opinion on the financial statements for the biennium ended 31 December 1991. Although the financial statements were not qualified, the auditors made the following observation:

(a) Inventory control. The Technical Cooperation Equipment and Subcontracting Branch (EQUIPRO) of ILO maintains a master inventory of non-expendable technical cooperation equipment. Project officers in the field are required to carry out annual inventory checks and submit certificates to EQUIPRO covering all inventory items in their custody.

Project officers response to the annual ILO certification of project inventories was poor. The external auditors recommended that, as a matter of priority, ILO review the status and management of inventories and arrangements for ensuring that they are kept up to date.

The Administrator is pleased to inform the Governing Council that ILO has indicated that the project officers are aware of the audit observation and that non-compliance will be treated most seriously.

UNDP will follow up with ILO to ensure that this matter is addressed and resolved.

V. FOOD AND AGRICULTURAL ORGANIZATION OF THE UNITED NATIONS

6. The external auditors issued an unqualified opinion on the financial statements for the biennium ended 31 December 1991. Although the financial statements were not qualified, the auditors made the following observations:

(a) Unliquidated obligations. The agency conducted a series of reviews of unliquidated obligations. However, the auditors pointed out that there is scope to strengthen these procedures to avoid audit adjustments in the future and recommended that additional controls should be programmed into the computerized accounting system.

The Administrator is pleased to report that the problems identified by the external auditors regarding fellowship obligations have now been eliminated following a review and amendment of the procedures;

(b) Reconciliation of accounting records. Reconciliations of the accounting records of FAO with those of UNDP were not completed on a timely basis. The auditors recommended that they be done more promptly.

The Administrator is pleased to report that UNDP has received reconciliations from FAO as at 30 June and 30 September 1992;

(c) Closer management scrutiny of draft accounts. Audit adjustments to the cash balance held on behalf of UNDP amounting to $1.5 million were necessary. The auditors recommended that to avoid such recurrences, there should be closer management scrutiny of the draft accounts and supporting working papers.

The Administrator has taken note of this observation and will follow-up with FAO, as appropriate;

(d) Accuracy of inventory records. A review of inventory records revealed that the accuracy is affected by delays in the confirmation from field offices of receipts or disposals and that the manually maintained portions of the inventories require updating. The auditors recommended that the status of $4.3 million of inventory classified as "transferred to Governments" be reviewed.

The Administrator is pleased to report that FAO is currently implementing the recommendation made by the external auditors;

(e) Standard basic executing agency agreement. An updated executing agency agreement between UNDP and FAO has not yet been signed.

The Administrator is pleased to report that the new agreement has been reviewed and agreed upon by UNDP and the agency and will be signed shortly.

VI. UNITED NATIONS EDUCATIONAL, SCIENTIFIC AND CULTURAL ORGANIZATION

7. The external auditors issued an unqualified opinion on the financial statements for the biennium ended 31 December 1991. Although the financial statements were not qualified, the auditors made the following observations:

(a) Quality of financial reporting on projects. Slow processing of field expenditure reported through the inter-office voucher (IOV) system adversely affected the quality of financial reporting data on projects. Adequate measures to rationalize the organizational structure and working methods involved were initiated.

UNESCO Administration has responded that a centralized IOV unit was created in order to accelerate the processing of IOVs received from field offices;

(b) Computerized budget control system. International experts' costs are adequately controlled, accounted and reported by UNESCO; however, minor adjustments to computerized budgetary control system and to statistical reports were necessary.

UNESCO Administration has indicated that the necessary adjustments to the computer system for recording expert costs have been made;

(c) Policy of one-year, fixed-term contracts. The policy of awarding one-year contracts to international experts renders staff administration more difficult but appears to be in line with the specific circumstances of the operational project environment.

UNESCO Administration has stated that awarding fixed-term contracts for internationally recruited staff is standard within the United Nations common system. This affords greater flexibility and reduces exposure to higher termination indemnities for staff whose continued service is subject to tripartite review;

(d) Project delivery. Increased budgetary flexibility apparently did not enhance project delivery.

UNESCO Administration believes it is difficult to quantify a direct causal relationship between increased flexibility and project implementation rates in percentage terms. The flexibility rule allows for automatic rephasings of unspent allocations from the first to the second year of a two-year budget cycle and the impact is twofold: (a) it reduces administrative work; and (b) it provides more realistic forecasting and phasing of project inputs.

There was a resultant increase in the delivery of UNDP projects since 1987;

(e) Improved project management capabilities. The Field Staff Training Manual issued should contribute to improve project management capabilities in UNESCO field offices.

UNESCO Administration agrees with this assessment and fully realizes that the development of management capabilities requires an ongoing, priority commitment to training and support of field staff in order to realize the full potential of decentralization;

(f) Project management monitoring and evaluation. Effective project management monitoring and evaluation could improve through a more efficient use of the information database concerned and through more rigorous briefing and training of national project managers.

UNESCO Administration plans to update the database systematically and on a priority basis both for quantity of data entered and for quality of project descriptive data. This updating will be closely monitored with periodic assessments made to ensure that the database becomes a viable and widely available project management tool with telecommunications links to all major field offices. UNESCO will explore with UNDP whether briefing and training of national project managers could be financed directly from UNDP project budgets;

(g) Programme evaluation. The auditors highlighted the need for programme-level evaluation.

In its response, UNESCO Administration recognized the need to intensify evaluation activities at the programme level. Efforts are being made to obtain

additional funding to permit a significantly enhanced level of evaluation activity. The new support cost system of UNDP as applied to UNESCO, also provides for technical services (TSS-2) such as project appraisal and evaluation to be reimbursed directly from project budgets.

VII. INTERNATIONAL CIVIL AVIATION ORGANIZATION

8. The external auditors issued an unqualified opinion on the financial statements for the year ended 31 December 1991 and made no further observations. The long-form report referred to in the auditors' report on page 61 of document DP/1993/48/Add.1 was not available from the agency.

VIII. WORLD HEALTH ORGANIZATION

9. The external auditors issued an unqualified opinion on the financial statements for the biennium ended 31 December 1991 and made no further observations.

IX. WORLD BANK

10. The external auditors issued an unqualified opinion on the financial statements for the year ended 31 December 1991 and made no further observations.

X. INTERNATIONAL FINANCE CORPORATION

11. The external auditors issued an unqualified opinion on the financial statements for the year ended 31 December 1991 and made no further observations.

XI. UNIVERSAL POSTAL UNION

12. The external auditors issued a qualified opinion on the financial statements for the year ended 31 December 1991 as the auditors could not agree on the balances reported by UPU and UNDP.

13. The following were the issues reported by the auditors as the basis for qualification of the financial statements:

(a) Bookkeeping. The books of account were not always updated. Accounting errors were noted and these will be corrected in 1992. Transactions will have to be recorded in respect of "Petty cash", "Advances on mission costs", "Accounts receivable" and "Accounts payable", as part of the required follow-up action.

The Administrator is pleased to note that the agency has stated that the amounts in arrears have been cleared;

(b) Operating fund. The auditors stated that they were unable to determine whether the balance of the UNDP operating fund statement as at

31 December 1991 agreed with the balance of the status of funds at that date prepared by UPU.

The Administrator notes that although there was a difference of $74,210.81 between the status of funds submitted by UPU and UNDP operating fund statement OFS 91-12, the amount represented differences of IOV charges that were recorded by UNDP and not by UPU.

The reason for this is that the agency's books of account close prior to those of UNDP. The outstanding charges to be recorded by UPU were processed by the agency during the financial year 1992.

XII. INTERNATIONAL TELECOMMUNICATION UNION

14. The external auditors issued an unqualified opinion on the financial statements for the year ended 31 December 1991. Although the financial statements were not qualified, there were certain operational issues that were noted by the auditors that required follow-up action by ITU.

15. The following issues were mentioned by the auditors:

(a) Allocations for projects funded by indicative planning figures (IPFs), Special Programme Resources (SPR), the Special Measures Fund for the Least Developed Countries (SMF/LDC) and Government cash counterpart contributions (GCCC). The auditors noted that for some IPF and LDC projects, the allocation is less than expenditure or is non-existent. In some cases, the difference is due to adjustments that should be taken into account in the annual mandatory revision and which will be the subject of an additional allocation. The auditors requested ITU to obtain the missing allocations.

The allocations for three LDC-funded projects mentioned in the 1990 audit report were still not allocated. The auditors again requested ITU to obtain the missing allocations.

For a GCCC-funded project, the difference between actual expenditure and the allocation amounted to $1,350. The auditors requested ITU to request a revised allocation from UNDP.

The Administrator advises the Governing Council that UNDP will provide ITU with the outstanding allocations;

(b) Status of funds. The auditors noted that there was a net difference of $3,247 between the status of funds at 31 December 1991 prepared by ITU and the UNDP final operating fund statement OFS 91-12. The individual differences have been identified and are to be corrected in 1992.

The Administrator is pleased to inform the Governing Council that the appropriate adjustments will be made by UNDP for the financial year 1992;

(c) Unliquidated obligations. The unliquidated obligations posted to the account do not include all obligations contracted up to 31 December 1991. In addition, the cost of equipment expressed in another currency was not based on

the United Nations rate of exchange for December 1991. Steps have been taken to ensure that this inaccuracy is not repeated in the future.

The Administrator is pleased to report that ITU has indicated that the United Nations operational rates of exchange were used for the financial year 1992.

XIII. WORLD METEOROLOGICAL ORGANIZATION

16. The external auditors issued an unqualified opinion on the financial statements for the biennium ended 31 December 1991. Although the financial statements were not qualified, the auditors made the following observations:

(a) Budget and unliquidated obligations. The measures decided by the General Assembly of the United Nations at its forty-fourth session modifying the remuneration of staff in the Professional and higher categories effective 1 July 1990, resulted in higher expert costs. In some cases, the gap between expenses and approved budget have exceeded the flexibility margins. Excess amounts that were less than 2 per cent of total budgeted expenses have been taken care of during the annual rephasing of projects at the beginning of 1991. Three projects show expenditure with no corresponding budgets.

For a particular project, commitments for equipment amounted to $134,272, of which unliquidated obligations amount to $34,106 for a budget of $160,959 as of 31 December 1990. In 1991, the budget was reduced to $130,000 but the unliquidated obligations have not been modified accordingly.

The Administrator will follow-up with the agency to ensure that the corrections are made for the financial year 1992.

XIV. INTERNATIONAL MARITIME ORGANIZATION

17. The external auditors issued an unqualified opinion on the financial statements for the year ended 31 December 1991 and made no further observations.

XV. WORLD INTELLECTUAL PROPERTY ORGANIZATION

18. The external auditors issued an unqualified opinion on the financial statements for the year ended 31 December 1991 and made no further observations.

XVI. INTERNATIONAL ATOMIC ENERGY AGENCY

19. The external auditors issued an unqualified opinion on the financial statements for the year ended 31 December 1991 and made no further observations. The long-form report referred to in the auditors' report on page 113 of document DP/1993/48/Add.1 was not available from the agency.

XVII. INTERNATIONAL TRADE CENTRE

20. The external auditors issued an unqualified opinion on the financial statements for the year ended 31 December 1991 and made no further observations.

XVIII. WORLD TOURISM ORGANIZATION

21. The external auditors issued an unqualified opinion on the financial statements for the year ended 31 December 1991. Although the financial statements were not qualified, the auditors made the following observations:

(a) Completion of computer programme development. The external auditors strongly recommended early completion of the computer programme to enable reports to be provided to UNDP with breakdown of expenditure by budget lines and, consequently, reporting for timely decision-making. UNDP has taken note of this observation and has expressed its hope to WTO that this will be addressed, as indicated;

(b) Provision of cash for expenditure for programmes of associated and cooperating agencies. The observation was made that, under the present practice of financing various agency programmes, UNDP does not provide funds in cash for either associated or cooperating agency programmes.

The Administrator believes that there is some misunderstanding on this and will, consequently, be contacting WTO to resolve the matter.

XIX. AFRICAN DEVELOPMENT BANK

22. The external auditors issued an unqualified opinion on the financial statements for the year ended 31 December 1991 and made no further observations.

XX. ASIAN DEVELOPMENT BANK

23. The external auditors issued an unqualified opinion on the financial statements for the year ended 31 December 1991 and made no further observations.

XXI. INTERNATIONAL MONETARY FUND

24. The external auditors issued an unqualified opinion on the financial statements for the year ended 31 December 1991 and made no further observations.